

SPC COOPERATIVE CREDIT UNION

Response to

NCUA Advance Notice of Proposed Rulemaking

1. The Role of Corporates in the Credit Union System

- NCUA should carefully review corporate credit unions investment authority, and corporate credit unions should not be permitted to concentrate their assets in long-term, on-balance sheet investments because such activities have resulted in some corporate credit unions taking on more risk than they could reasonably manage or mitigate.
- The number of corporate credit unions should be sufficient to promote innovation among the remaining corporate credit unions and avoid a potential single point of failure that could arise if only one corporate credit union survives.

Payment Systems:

- Forcing the separation of payment systems from funds management is not necessarily desirable or practical. As a system we should continue to work on increasing payment system efficiencies, however, member credit unions should ultimately determine which business lines a corporate provides.

Liquidity and Liquidity Management

- The NCUA should take all necessary action to assure that the Central Liquidity Fund be able to take full advantage of its statutory authorities to provide funding directly to corporates.

Field of Membership Issues

- Our corporate credit union (First Carolina Corporate) is state chartered and has had a national field of membership since 1995. It has required that credit unions wishing to join corporate have purchased membership capital shares. The corporate has taken no additional risks to serve non-core members. However, this was certainly not true for all corporate credit unions. Providing a requirement that some type of capital be invested at each corporate would control the number of corporates a credit union could join. We feel this capital requirement should be uniform across all corporates.

Expanded Investment Authority

- If you allow additional investment risks you should require additional capital. Corporates that are granted additional investment authority should have some requalification requirements. However, NCUA need to be flexible in this regard as the investment environment is not static. One would also have to ask what additional steps the regulators are going to take to improve the quality of their exams. These investments did not take place in a vacuum.

Structure: Two-tiered System

- U. S. Central will need to be an on-going entity for some time as it will need to manage down its investment portfolio over an extended period of time to minimize losses. Obviously, U. S. Central does provide some aggregate value to corporates and thereby the credit union system. We do not have enough expertise in that area to make a recommendation. However, if there is justification to have a wholesale corporate, it should not be taking risks on its own balance sheet but passing it down to corporates.

2. Corporate Capital

Core Capital

- Corporate credit unions' Tier 1 capital requirement should be at least 4% and could be as high as 6%. Risk-based capital should also be required.
- Natural person credit unions that use corporate credit unions should be required to maintain member capital in their corporate.
- We do not feel PIC capital should be mandatory as long as you have sufficient membership capital requirements. Credit unions dealing with corporates would be required to have membership capital deposits. We do not see the value in extending the time period from 3 to 5 years to withdraw membership capital.

3. Permissible Investments - No comments

4. Credit Risk Management

- Based on the current conditions, two ratings from NRSROs need to be required on any investment and both ratings need to meet regulatory guidelines. In the event of a downgrade with one rating, the investment would be out of compliance.

5. Asset Liability Management

- Net income simulation and other modeling tools should be used. Results need to be reviewed on a regular basis and validated against actual economic history.

6. Corporate Governance

- Would outside non-member directors have made a difference? Is it really in the best interest of the movement? We need some continuity but should have some term limit structure.